Bahrain officially announces adoption of the GCC VAT Agreement

On 1 February 2017, the Minister of Finance H.E. Shaikh Ahmed bin Mohamed Al Khalifa signed the unified GCC VAT agreement. Bahrain is the second GCC state after Saudi Arabia to officially announce the adoption of the GCC VAT regime which is expected to be applicable from 1 January 2018. The minister announced that Bahrain will apply the conventions of the agreement after the completion of all constitutional and legal procedures, and the issuance of the necessary legislation by the legislative authority.

The Minister also signed the GCC’s unified law on selective excise taxes. In Bahrain selective excise taxes will be levied on tobacco as well as sugar sweetened beverages including soft drinks and energy drinks. These excise taxes are expected to be introduced in the second quarter of 2017. The excise levies will be 50% on soft drinks and a 100% tax on cigarettes and energy drinks.

Detailed discussion

Key features of the GCC VAT framework

- The standard VAT rate will be 5% unless a zero rate or exemption applies.
- The Member States have the right to subject the following sectors to a zero rate or to exempt them from VAT:
  - Education
  - Health
  - Real estate
  - Local transport
- The Member States have the right to subject the oil sector, petroleum derivatives, and gas to a zero rate of VAT.
- Individual GCC countries have the right to subject certain food products to a zero rate of VAT.
- The Member States have the right to subject medical supplies to a zero rate of VAT.
- Intra-GCC and international transport will be subject to a zero rate of VAT.
- The export of goods to jurisdictions outside of the GCC Member States will be subject to a zero rate of VAT.
- The Member States have the right to exempt financial services from VAT. The term financial services is not defined but broadly the exemption will generally relate to dealings in money, securities, foreign exchange and the operation and
management of loan accounts, deposits, trade credit facilities and related intermediary services. The exemption is not expected to extend to fee based services transacted by a financial institution. However, Member States may choose to apply different VAT treatments to financial services if they wish.

- Supplies of goods and services from a VAT registered person in one Member State to a VAT registered person in another Member State are subject to the reverse charge mechanism.
- VAT grouping appears to be permitted between two or more legal persons resident in the same Member State.
- The treatment of GCC free zones is not addressed and it is left to each Member State to determine its own VAT treatment for free zones.
- Businesses with an annual revenue of over US$100,000 will be required to register for VAT purposes.
- Businesses with an annual revenue between US$50,000 and US$100,000 will have the option to register for VAT purposes.

Next Steps

The announcement by the GCC of the VAT Framework Agreement confirms the implementation of VAT in the GCC Member States from 1 January 2018. This means that businesses operating in the GCC only have 11 months to prepare for the VAT implementation and to become compliant with the respective GCC VAT laws.

It follows that, GCC businesses should initiate a VAT impact assessment immediately in order to determine the impact that VAT will have across their operations. This assessment should consider the impact of VAT on the following key areas:

- Finance and accounting
- IT and systems
- Tax and compliance
- Supply chain – goods and services
- Contracts
- Sales and marketing
- Legal structure
- Human resources

The impact assessment should be used to develop a clear plan as to the steps that must be taken to be ready for VAT from 1 January 2018.

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